

*Governments,
private firms
will soon
have to pay
even more
for talented help*



What's an executive worth?

By Gail Evans and Nick Bishop

THE compensation of senior executives seems to be a constant area of interest for employees, shareholders and even other executives. Yet, for senior executives in the public sector, the interest seems to be even greater. After all, everyone pays taxes and we all want to know if we are getting value for the money. So what is a senior executive worth?

There are plenty of people trying to answer just that question, particularly since a series of headlines comparing the salaries of senior civil servants in the Manitoba and Winnipeg city governments. First, you need to keep in mind that executive jobs come in many varieties with many different complexities, so the range of compensation packages is also complex and varied.

However, salaries are not established in a vacuum. They are structured according to well-accepted principles that directly impact on executive pay structures. The key factors that affect executive compensation are size of the organization, industry sector and risk in the job. The size of an organization is particularly important because the larger an enterprise becomes, the greater the responsibility or accountability of the executive and the greater the level of management expertise and general business knowledge required for the job.

The role of a senior executive is to ensure that successful business strategies are not only put together, but are effectively implemented both in the short term as well as the long term. And if an organization consists of a multiplicity of intertwined entities, businesses, products, markets, services or locations, the job of a senior executive becomes much, much more complex. Therefore, in order to be successful, the senior executive has to have extensive experience in the successful management and integration of a wide variety of different operating strategies. In addition, the daily issues that arise for consideration are often very complex, highly political and can directly impact on organizational and financial security. After all, a profitable business wants to see a return for investors, while public organizations seek to assure their stakeholders or taxpayers that money was well-spent and the organization well-managed.

Another factor that impacts executive compensation is the specific industry sector in which a professional is employed. In fact, the type of industry can make a significant difference to executive pay as some sectors can simply afford to pay more than others, and they do so. If an industry sector, such as oil and gas, is providing healthy returns to investors on the back of good margins on increasing volumes, then a company can expect to pay high salaries in order to get the best people.

If an executive is working in a sector that is under a lot of financial pressure, such as manufacturing, then investor returns and margins will be lower, which in turn will create a different pay profile.

But, what about businesses that don't have investors other than you and me — the taxpayer? The public sector needs good executives, too! Not only that, the public-sector is also forced to compete for its executives in the same market as the private sector.

Generally, it is well-known and accepted that executive compensation in a public sector organization is lower than similar positions in the private sector. This is particularly true for elected officials who have chosen to work in "public service." While taxpayers might complain about the salaries, the only way to change this is to actually depose certain selected public employees directly, which is a lengthy political process. On the other hand, when a public agency or business is privatized, it is not uncommon for the salaries of the former public-service executives to increase. At the same time, their expectations of job tenure decreases.

So, what is the key issue in explaining the salaries of senior executives? The issue is all related to risk. In other words, the more risky the issues the business or organization faces, the greater the responsibility of the executive team. Therefore, an organization must recruit, select and hire executive-level professionals with track

records of successfully tackling similar problems to what occurs in their industry sector. Typically, the higher the risk, the higher the pay that is required. In some cases, companies and organizations must resort to a compensation package called a "golden parachute" because this is the only way in which a senior executive will take a personal risk to come to a "risky" business situation.

Risky

Life is indeed risky at the top! And this risk has resulted in the industry practice of offering special executive compensation packages that serve to address the risk of termination. The issue of risk is important for executives to consider. The fact is that an executive's tenure at the helm of a complex business is getting shorter and shorter over time. For instance, the executive who may have been the saviour of your business because he turned it around and sorted out all your operating efficiencies, may not be the right person to invest in and grow new products.

While salary is still the most common focus of executive pay, there are a number of strategies that are also frequently utilized in the compensation mix. These include variable pay, both short-term (annual bonus) and long-term (bonuses, termination packages and retirement packages). A number of recent studies indicate the following trends in executive pay:

- Less emphasis on base salary, more on variable pay to align with perfor-

mance;

- More emphasis on long rather than short-term pay to support a strategic perspective;

- Emphasis on short term, line-of-sight objectives;

- A greater use of non-financial measurements in addition to financial metrics, and;

- Increased size of "golden parachute" packages to balance the limited tenure in executive positions.

While the latest controversy over salary figures in the public sector might have surprised many Manitoba readers, it is our opinion there will be increasing market pressure on the current "executive talent pool." In fact, we anticipate a shortage of experienced executives and even higher salary demands due to the reduction in unemployment rates and the retirement of many baby boomers. The implication is that no matter whether you are the public sector or corporate Canada, in the very near future, you will have to pay more for your top-notch executive employees because they will have more value.

Finally, in addition to opening their wallets, organizations will have to become increasingly creative in developing recruitment and retention strategies that focus on the longer term and include issues such as reputation, values and quality of work.

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